

**Acknowledgements****Executive Summary**

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### **Introduction**

Small and emerging businesses are a powerful force in the U.S. economy. Over the last two decades, research data from the federal government and innumerable private sources have documented repeatedly the central role that small and emerging businesses play in job creation and economic growth. They employ the vast majority of workers, serve as a critical entry point to the workforce for most Americans, and provide significant skill training and work experience that help workers advance in the labor market.

This report is about connecting these small and emerging businesses (occasionally referred to herein as “SEBs”) to the resources and services available through the public workforce system. For purposes of this report, “public workforce system” refers to the extensive network of public and private agencies and organizations that are collaborating in order to enhance the skills and knowledge of the workforce and workplace. Small and emerging businesses constitute one segment of the marketplace of employers that, historically, the public workforce system has not understood well nor served effectively. In June 2002, the U.S. Department of Labor’s (DOL) Employment and Training Administration (ETA) funded the Research Institute for Small & Emerging Business (RISEbusiness) to conduct the first in-depth research project to increase knowledge and understanding of the special workforce needs of small and emerging businesses, and to examine how the public workforce system is responding to address those needs.

Under the Workforce Investment Act (WIA) of 1998, Congress intended that American business play an integral role in the design of the public workforce development system, and that the system serve the business community as a primary customer. DOL’s investment in this research is one in a series of strategies employed by ETA over the last several years to increase the system’s responsiveness to businesses — the demand side of the labor market. Through this research project and the complementary ETA initiatives, it is apparent that the public workforce system offers services and resources that potentially could make a critical difference in how SEBs respond to these challenges and solve complex labor market problems. RISEbusiness recognizes that the need for the public workforce system is greater today than ever before. In addition to being the backbone of our

economy, small and emerging businesses will lead our economic recovery. Thus, particularly during the economic recovery, we must address the unique needs of SEBs to better match their skill requirements with those seeking employment. In short, small and emerging businesses' support for, access to, and utilization of the public workforce system never have been more important.

## **Project Methodology**

This project focused on three questions that merit further research and that represent long-term strategies and pursuits:

- How do human capital needs of small and emerging businesses vary by type of business (e.g., number of employees, industry sector, stage of growth or development)?
- What types of small and emerging businesses are most inclined to use the services of the public workforce investment system, and for what services?
- How can sophisticated market-driven strategies impact the effectiveness of the public workforce investment system in providing services that meet SEBs' needs?

We sought to answer these questions by using qualitative research methodologies, including reviews of literature and research studies, interviews with business leaders and experts, as well as vignettes and more detailed case examples of workforce development agencies.

## **The Importance of Small and Emerging Businesses**

Small and emerging businesses represent more than 99.7% of all employers, employ more than half of all private-sector employees, generate more than 50% of the U.S. Gross Domestic Product (GDP), and create most of the next new jobs in the U.S. economy. They also represent a critical point of entry and source of skills training, particularly for those workers who often are on the margin of the labor market. Small firms that are nimble, adaptable, and creative will play an increasingly important role in creating new job opportunities for America's unemployed and once again will lead the way to economic recovery.

### **Small and Emerging Businesses and the Public Workforce System**

As noted above, we interviewed small-business owners, entrepreneurs, and executives of small-business associations who represent them.

Our interviews were structured around three major themes:

- Expectations and needs of small and emerging businesses.
- Barriers and challenges for small and emerging businesses in accessing the public workforce system.
- Barriers and challenges for the public workforce system in reaching and engaging small and emerging businesses.

At the most basic level, the expectations and needs of small and emerging businesses do not vary tremendously from those of large companies. Finding and retaining qualified workers are among the most formidable challenges facing employers today. However, finding, screening, training, and retaining qualified workers are significantly bigger challenges for the SEB sector since they lack human resources departments, large advertising budgets, as well as the time to recruit, hire, train, retain, and replace qualified workers. Also, a large company can accommodate a bad hiring decision more readily than a small or emerging business.

Many of the small and emerging businesses we interviewed had clear recommendations on specific ways that the public workforce system could help them identify, hire, and retain qualified workers through consultation and expert advice focused on:

- choosing from among various tests, assessments, and measurement tools for evaluating job candidates;
- writing job descriptions, conducting interviews, performing pre-employment assessments, hiring and firing employees, providing employee training and development, and validating a prospective employee's employment record and personal background;
- finding employees with “soft” or “work readiness” skills (i.e., literate, ethical, reliable, and loyal employees);

- creating and sustaining a healthy work environment — i.e., engaging in effective “people practices” to help realize enhanced performance outcomes and commitment from those on the job; and,
- providing proper tools and information, including information about local labor markets, to guide strategies and management decisions, including recruiting strategies and compensation policies.

Understanding the barriers and challenges facing small and emerging businesses in accessing the public workforce system requires consideration of the distinctive organizational structure and cultures in which they operate, which reflect the independent nature of the typical small-business owner and entrepreneur. Coupled with their relative isolation, these factors create unique barriers and challenges in accessing the system that are not faced by publicly-traded companies.

Notwithstanding, there are myriad opportunities for competent public-sector intervention on behalf of small and emerging businesses. In the course of our interviews, upon learning about the services, resources, and capabilities available, business owners generally agreed that the public workforce system offers significant assistance in helping them meet their expectations, needs, and the costly challenges associated with finding and developing human capital. However, reaching and engaging small and emerging businesses require that federal, state, and local workforce officials overcome several barriers. These barriers include the relatively higher cost of packaging and delivering services to small and emerging businesses, the vast diversity among companies, the lack of awareness about the system’s capabilities, and skepticism about working with government-provided products and services.

## **State and Local Workforce System Strategies and Responses**

In the course of this work, we were able to observe first-hand the early stages of how the public workforce system is adapting to the policy shift to a demand-driven system. In turn, our study provides an early assessment of how well the workforce system currently responds to the needs of small and

emerging businesses. We encountered numerous examples of creative processes, strategies, and initiatives demonstrating how the workforce system can address small and emerging businesses' needs effectively.

The vignettes and more detailed case examples in this report provide a quick glimpse into some of these approaches and illustrate how workforce entities have engaged small and emerging businesses. However, we do not intend to suggest that, in each of the examples, the states or communities have adopted a comprehensive strategy focused on addressing the needs of small and emerging businesses. On the contrary, most of the examples are NOT the result of a small-business targeted strategy. Instead, the examples illustrate the myriad ways in which the public workforce system has found ways to address those SEB needs effectively. In some cases, the strategies and business services described are part of a business outreach and services strategy that happened to be packaged and delivered in a way that small and emerging businesses found accessible and valuable. Others have targeted small and emerging businesses as part of a broader market-segmentation strategy, organizing by firm-size, industry sectors or clusters, stage of growth or development, or geography. Perhaps the common thread in these examples involves the importance of public workforce system leadership being cognizant of small and emerging businesses as strategy and resource allocation decisions are made. The vignettes and more detailed case examples in this report are drawn from a wide range of states and communities and are intended to capture what was occurring at a certain point in time, the spring and summer of 2003 when our field research was conducted.

### **Vignettes**

1. Oklahoma Workforce Investment Board and Employment Security Commission
2. Concho Valley, TX Workforce Development Board
3. Eastern Kentucky CEP (Hazard, KY)
4. Greater Long Beach Workforce Development Board (Long Beach, CA)
5. WorkForce Essentials (Clarksville, TN)



6. Three Rivers Workforce Investment Board (Pittsburgh, PA)
7. Iowa Workforce Development (IWD)

### **Detailed Case Examples**

1. WorkSource, First Coast Workforce Development (Jacksonville, FL)
2. Workforce New York, New York State's Workforce Development System
3. North Valley (NOVA) Job Training Consortium (Sunnyvale, CA)
4. State of Vermont
5. San Diego Workforce Partnership (San Diego, CA)
6. The WorkPlace, Inc., Southwestern Connecticut's Regional Workforce Development Board (Bridgeport, CT)

Some of these locations already have received national attention for their specific programs. Nevertheless, we approached the selected site visits from a unique angle. In our study, we aimed to develop a better understanding of the leadership, policies, governance, funding allocation, and service delivery structures that facilitated services delivery to small and emerging businesses.

### **Synthesis: Promising Practices to Replicate or Adopt**

#### ***Short-Term Strategies***

- Employer representation on and active private-sector leadership of WIBs are critical to ensuring that the system meets employer needs.
- Successful workforce agencies and boards provide business services that are relevant, accessible, measurable, and that have an immediate, real bottom-line impact for small and emerging businesses.
- Winning the confidence of the business customer means that workforce boards and agencies have to deliver services and achieve results that make a difference to small and emerging businesses and that go beyond the traditional boundaries of the workforce development system.
- Successful state and local workforce organizations interpret and apply the WIA statute and regulations with confidence, and use their authority to promote innovative program strategies and entrepreneurial behavior.

- Workforce systems that make sophisticated use of local labor market information gain the confidence of their business customers.
- Workforce systems that are most responsive to business needs place high value on consulting business customers and engaging in systematic listening processes to identify needs and opportunities.

### ***Longer-Term Strategies***

- Successful workforce boards and agencies take a strategic orientation in targeting the needs of small and emerging businesses.
- State and local workforce boards that take a systematic approach to understanding the needs of local businesses are much more likely to gain the confidence of the business community.
- By integrating services and aligning resources at the state or regional level, the public workforce system expands the options and range of solutions it can offer to small and emerging businesses, thus improving market penetration.
- Public workforce agencies must have qualified staff who understand the needs of the business customer, particularly the unique needs of small and emerging businesses, if the system is to be effective in providing services and expertise.

## **Recommendations for Action**

### **A. Recommendations for Local WIBs and One Stop Career Center Operators**

*Recommendation #1: Demonstrate leadership.* Leadership must articulate a new vision to employers and the general public, and create an environment that fosters entrepreneurial behavior.

*Recommendation #2: Build staff capacity.* Staff must develop skills around WIA services of interest to SEBs (e.g., recruiting, screening, pre-employment assessments, job matching, employment training), as well as access to non-WIA resources.

*Recommendation #3: Follow a systematic process.* At a minimum, this involves an inclusive process for data collection and analysis, collaborative planning, strategy development, implementation, and assessment of outcomes and impacts.

*Recommendation #4: Segment the market in a meaningful way.* Workforce leaders should incorporate market segmentation into their processes for data analysis, planning, and strategy development to ensure effective resource allocation and alignment.

*Recommendation #5: Engage key small and emerging business owners.* Local officials should ensure adequate representation of small and emerging businesses on WIBs, and also should engage industry and trade association officials representing SEBs.

*Recommendation #6: Increase outreach efforts to small and emerging businesses.* This requires more intensive investments in marketing and communications to the business customer, rethinking issues of branding and image, and packaging services to encourage use by small and emerging businesses.

## **B. Recommendations for State WIBs and Agencies**

*Recommendation #1: Exercise strong leadership.* State leaders must provide clear guidance, support effective technical assistance, offer incentives for outstanding performance, thus helping local officials overcome frustrations regarding limited funding.

*Recommendation #2: Make strategic investments.* State officials can make strategic investments to address small and emerging business needs, including using WIA and other discretionary resources to encourage local/regional LMI research and planning.

*Recommendation #3: Build capacity.* States should use discretionary funds to support capacity-building and provide technical assistance to local leaders and staff.

*Recommendation #4: Align resources.* Having multiple, federal funding

streams flow through a single administrative entity, such as a WIB, creates synergies and economies of scale and provides customers with a single point of contact.

### **C. Recommendations for Federal Statutory and Administrative Actions**

*Recommendation #1: Increase flexibility.* As reauthorized, WIA should allow state and local workforce entities sufficient flexibility to set priorities and allocate resources based on local economic circumstances.

*Recommendation #2: Provide guidance on business services.* As reauthorized, WIA should provide guidance regarding the types of business services allowed or anticipated (e.g., articulating business needs, designing and implementing sectoral strategies, sponsoring business seminars, and providing consultation services).

*Recommendation #3: Encourage support for intermediaries.* As reauthorized, WIA should incorporate language, and possibly incentives, strongly encouraging WIBs to involve intermediaries in defining and implementing a business services strategy.

*Recommendation #4: Retain private-sector leadership.* As reauthorized, WIA should retain a strong role for local SEBs on WIBs in continuing to build credibility with business customers and economic development partners.

*Recommendation #5: Build capacity.* DOL/ETA should make a concerted effort to identify the needs of the workforce system for professional development and capacity-building, and work closely with states to invest in critical areas.

*Recommendation #6: Support sectoral strategies.* DOL/ETA should continue to invest in targeted, sectoral approaches (e.g., The High-Growth Job Training Initiative).

*Recommendation #7: Increase brand awareness.* DOL/ETA must continue to make progress in overcoming the rather fundamental problem of the

relatively low use and level of awareness of the workforce system and its resources on the part of SEBs.

*Recommendation #8: Monitor system progress in meeting small and emerging business needs.* Such monitoring could take the form of a Commission, funding of additional research, and/or the convening of a series of meetings to address these issues.

#### **D. Recommendations for Future Research and Demonstration Projects on Promising Practices**

- Recommendation #1: Convene meetings of small and emerging business owners, associations, and advocacy groups on a regional basis.
- Recommendation #2: Develop a primer or resource guide.
- Recommendation #3: Illustrate effective strategies and methods of collaboration through a limited demonstration of matching up small and emerging business networks and capable public workforce programs.
- Recommendation #4: Conduct more in-depth research and analysis, and launch some demonstration projects on how best to overcome low levels of awareness and the limited use of the workforce system by small and emerging businesses.
- Recommendation #5: Develop a better understanding of several important questions of interest to small and emerging businesses regarding the functioning of labor markets.
- Recommendation #6: Encourage more state and local research and demonstration projects.